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BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA

Order Instituting Rulemaking to Oversee the Resource Adequacy Program, Consider Program Refinements, and Establish Forward Resource Adequacy Procurement Obligations.	Rulemaking 19-11-009 (Filed November 7, 2019)

COMMENTS OF MORGAN STANLEY CAPITAL GROUP INC. ON TRACK 1 PROPOSALS SUBMITTED IN R.19-11-009

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Pursuant to the *Assigned Commissioner's Scoping Memo and* Ruling issued on January 22, 2020 (the "Scoping Memo"), Morgan Stanley Capital Group Inc. ("MSCG") respectfully submits the following comments on the Track 1 Proposals submitted to the California Public Utilities Commission ("Commission" or "CPUC") on February 28, 2020 regarding California's Resource Adequacy ("RA") program.[1]

MSCG submitted its Track 1 Proposal on February 28, 2020 ("MSCG Proposal"), which continues to reflect MSCG's position regarding the RA program, generally.[2] These comments reiterate certain points contained in the MSCG Proposal and also address the Track 1 Proposals filed by some of the parties in this proceeding. MSCG appreciates the opportunity to provide these comments.

[1] *Energy Division Resource Adequacy (RA) Import Proposal for Proceeding R.19-11-009* (February 2020) (hereinafter referred to as the "*Energy Division Proposal*"); *California Independent System Operator Corporation Track 1 Proposal* (February 2020) (hereinafter referred to as the "*CAISO Proposal*"); *Southern California Edison Company (U 338-E) and Shell Energy North America (US), L.P.'s Track 1 Proposal* (hereinafter referred to as the "*SCE/Shell Proposal*"); *Track 1 Proposal of Powerex Corp.* (February 2020) (hereinafter referred to as the "*Powerex Proposal*").
[2] *Track 1 Proposal of Morgan Stanley Capital Group Inc. Regarding the Scope, Schedule, and Administration of R.19-11-009* (February 2020) (hereinafter referred to as the "*MSCG Proposal*").

I. Resource Specification

MSCG agrees with the Energy Division of the CPUC, the California Independent System Operator Corporation ("CAISO"), and Powerex Corp. ("Powerex") that RA imported into California ("Import RA") should be backed by physical resources ("Physical Supply").[3] This requirement is discussed at length in the MSCG Proposal.[4]

The Physical Supply construct should be implemented as follows:

- First, MSCG agrees with the CAISO that the Physical Supply may be identified as a single resource, a portfolio of generating resources, or a source Balancing Authority ("BA"), and in any case such Physical Supply should be identified in the forward RA showing window.

- Second, the supplier should attest that the Physical Supply has not been sold elsewhere. Functional examples exist in the attestations and representations and warranties given by suppliers in the ordinary course of business in selling both (a) Renewable Energy Credits under the California Renewables Portfolio Standard program and (b) specified source energy under the California Air Resources Board Greenhouse Gas program.

- Third, the Physical Supply should be available for dispatch to the CAISO through a must offer obligation ("MOO") until such time as the CAISO develops a product that replaces MOO for both internal and external generators.

- Fourth, and most importantly, resource substitution in the operating window must be allowed in the event of an outage at the originally identified Physical Supply. Import RA differs from internal RA supply in certain beneficial ways. Namely, it can be dispatched hourly and is not excused in the event of an outage. Permitting resource substitution would preserve this important benefit of Import RA and would allow for an inherently more reliable product.

While MSCG supports identifying Physical Supply with respect to Import RA, care should be taken to ensure that any source specification rules not be so stringent as to preclude *bona fide* physical suppliers from participating in the Import RA market. For example, it is likely very easy for a vertically integrated utility selling Import RA to provide an integrated

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[3] *Energy Division Proposal*, at pages 3-4; *Powerex Proposal*, at page 2; *CAISO Proposal*, at page 4.
[4] *MSCG Proposal*, at Table 1-A, pages 4-7.

resource plan-type analysis of its surplus capacity. However, that is an inherently challenging requirement for market participants that have supply contracts for excess physical supply from generators or utilities who do not themselves sell or deliver energy into California. Historically, such existing physical supply contracts have not typically provided for the ability of the Import RA supplier to share telemetry or meter reading information with the CAISO. While perhaps possible prospectively, it will require time for Import RA suppliers to obtain such sharing rights going forward. MSCG believes a supplier attestation identifying the Physical Supply in advance of the monthly RA showing provides the CAISO with the information and certainty needed in making its operational decisions. Any such attestation should include that the Physical Supply will remain available through the real-time market.

II. Day-Ahead Requirements/Firm Transmission

In their respective Track 1 Proposals, each of Powerex and the CAISO support measures they assert will ensure that the Import RA is actually made available to CAISO in its day-ahead markets.[5] These measures include (i) a requirement to offer the full RA quantity into the market, and (ii) demonstration of the deliverability of the particular Physical Supply through submission of a day-ahead e-tag *prior* to the CAISO market determination of whether or not to deploy the resource (each, a "Day-Ahead Measure").

[5] *Powerex Proposal*, at pages 1-2; *CAISO Proposal*, at pages 2, 8, 14.

Table 1: Powerex's Recommended Day-Ahead and Real-Time Requirements[6]

Category	Requirement	Purpose	CAISO	Powerex
Day-Ahead Obligations	Day ahead Must-Offer Obligation for all hours of RA contract period	Requirement to make RA resource available to CAISO in each hour	Yes	Yes
	Approved Day ahead e-Tag for every hour of the operating day	Allow CAISO to verify that the RA resource identified at time of showing is actually being made available	Possibly	Yes
	Firm (or Conditional Firm) Transmission from Source to CAISO intertie for full RA contract quantity	Allow CAISO to verify that the RA resource is deliverable on firm transmission service	Yes	Yes
Real-Time Obligations	Real-Time Must Offer Obligation for all hours with a DA market award	Requirement to make RA resource available to CAISO in each hour with a day-ahead award	Yes	Yes
	Exceptional Dispatch Obligation during AAH Hours (unless intertie is full on Day-Ahead basis)	Ensure access to resource in hours most needed by CAISO BAA		Yes
	Approved DA e-Tag must remain in place for each hour with a real-time obligation (and for full quantity)	Allow CAISO to verify that RA resource continues to be available to meet all real-time obligations	Possibly	Yes
	Real-time data-sharing and monitoring (e.g., telemetry)	Ensure committed resource capability remains available to the CAISO through the operational timeframe	Yes	Yes

MSCG does not support the highlighted sections in Powerex's Table 1, above. Such Day-Ahead Measures will undeniably result in the unnecessary disqualification of physical supply from participating in the Import RA market and anti-competitive outcomes in the CAISO energy market. A proposal for a day-ahead e-tag without a corresponding energy award from the CAISO, especially one that remains in place for each hour of real time, may result in the hoarding of firm transmission capacity by a small number of suppliers. By implementing a day-ahead e-tag into CAISO, in anticipation of an energy dispatch (that may never come), the release of any unused firm transmission capacity for use by other market participants is prevented.

[6] *Powerex Proposal*, at page 19.

Importantly, such a result will occur so long as the implemented e-tag remains in place, even if the firm rights holder never receives a CAISO dispatch. For operational and reliability reasons, transmission providers rightly consider an e-tag an implemented schedule and will not release that capacity to the market. The result being that transmission that would otherwise be released for use by another market participant to deliver energy to California goes completely unused. Such a result is utterly at odds with a well-functioning, economically rational market.

An implemented day-ahead e-tag prior to a CAISO energy award is unnecessary to ensure the reliability of Import RA. Referring back to the example above, in the event the CAISO dispatches the firm rights holder's Import RA energy bid, that supplier still has its firm transmission rights on which to schedule and e-tag its award. However, if the CAISO dispatches a more economical market participant, the more economical participant can deliver to the CAISO on the released, unused transmission. Because the CAISO does not overschedule its portion of the NOB intertie, the more economical participant will be able to procure unused transmission to deliver to NOB. This is an economically rational, competitive result. However, requiring an implemented day-ahead e-tag remain in place through real-time frustrates the transmission release rules on Pacific Northwest transmission providers' systems and acts to preclude any other supplier from being able to offer not only Import RA, but also economic energy into the CAISO markets on that segment of transmission.

Only dynamic or pseudo tie schedules should have a day-ahead e-tag prior to an energy award, as these resources can be dispatched up or down every 5 minutes. Accordingly, the proposed day-ahead e-tag requirement prior to any CAISO energy award will grant a monopoly to those suppliers holding firm transmission rights from source to sink. MSCG discussed this in great detail in the MSCG Proposal.[7] The CAISO itself expressed concerns with this inefficient utilization of the transmission system. In its July 1, 2019 straw proposal as part of its CAISO led RA process, the CAISO commented:

> The current provisions provide greater ability for the most efficient utilization of transmission capability because when the non-resource specific imports do not clear the day-ahead market for some or all of their shown RA capacity, the associated transmission can be released for use in the real-time market by economic energy imports. CAISO believes this impact to potential efficient utilization of the transmission system is important to consider regarding this issue.[8]

Unnecessarily restricting the available pool of Import RA suppliers not only harms the California ratepayer due to higher prices being charged for Import RA, it is counterintuitive to the very principle of the CAISO's least cost dispatch model. The monopoly supplier can prevent any other supplier from procuring unused transmission, even if that second supplier has more economic energy to offer the CAISO energy market.

Moreover, no evidence has been presented to show that firm transmission from source to sink on the Bonneville Power Administration ("BPA") network is required to reliably deliver energy to the CAISO. As discussed in the MSCG Proposal, if CAISO still feels firm transmission increases reliability, MSCG proposes that a showing of firm transmission should only be required on the last segment preceding a California delivery point.[9] MSCG submits this would constitute a fair and balanced requirement for the following reasons:

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[7] *See MSCG Proposal*, at pages 8-16 (Section IV).

[8] *Resource Adequacy Enhancements Revised Straw Proposal*, California ISO (July 1, 2019), at page 46 (available at: http://www.caiso.com/InitiativeDocuments/RevisedStrawProposal-ResourceAdequacyEnhancements.pdf).

[9] *MSCG Proposal*, at pages 13, 14.

a) firm transmission on the southern intertie (Big Eddy to NOB or John Day to COB) is more broadly distributed amongst market suppliers than firm "source to sink" transmission rights;[10]

b) the southern intertie transmission segment is the constrained path; and

c) the southern intertie transmission is used by BAs to manage schedules within limits.

Implementing a firm transmission source to sink requirement or implementing day-ahead e-tag requirements where there is no energy award ultimately undermines the CAISO's least cost dispatch model by preventing any supplier without firm source to sink transmission from ever competing in either the Import RA or firm energy market.

III. Review of Other Proposals

As outlined above, MSCG agrees in principle with the CAISO and Powerex on the requirement to source specify Import RA resources. However, MSCG does not support their proposed requirement for firm source to sink transmission implemented through a day-ahead e-tag.

Regarding the Southern California Edison Company ("SCE") and Shell Energy North America (US), L.P.'s ("Shell") Track 1 Proposal, MSCG supports the construct of their proposed offer cap and how it fluctuates with underlying gas prices.[11] This seems like a reasonable alternative to MSCG's "Attestation" product proposal for a $500 offer cap. There are two areas, however, where MSCG differs from SCE and Shell:

i) MSCG believes any capacity product should be source specified. While SCE and Shell lumped capacity and energy into one product, MSCG broke these out into a capacity "Attestation" product where the source is specified at the time of RA showing and an "Energy" product where the source is identified day-ahead at time

[10] *See MSCG Proposal*, at page 15; *Powerex Proposal*, at page 17. Importantly, Powerex's table only shows firm rights to COB and NOB and *not* firm source to sink rights.
[11] *SCE/Shell Proposal*, at pages 1, 4.

of e-tag once the energy award is known. MSCG believes that a capacity product should attest to its source to alleviate concerns of speculative supply.

ii) SCE and Shell address the concern of double counting by stating "that for imports to count toward an LSE's RA obligation, the import contract must specify that the energy offered to the CAISO to meet the must offer obligation cannot be sourced from the CAISO controlled grid."[12] MSCG agrees with SCE and Shell on the statement above. However, SCE and Shell go on to recommend that this requirement be applied to contracts executed after this requirement is adopted by the Commission. MSCG disagrees on this last recommendation, and believes if double counting is a valid concern, then this requirement should be put in place prior to the summer 2020 peak demand season.

With respect to the CPUC staff recommendation of a must-flow requirement on all Import RA that is not dynamic or pseudo tie enabled, MSCG shares all concerns that have been raised to date by parties regarding self-scheduling. Even if the must-flow requirement is limited to the availability assessment hours, the lack of price signals for the market can have detrimental impacts over the long run.

For example, as we start getting into longer days, HE17 is already starting to get depressed in price due to the longer solar generation hours. The Availability Assessment hours are inflexible and do not shift with seasons or respond to technology advancements. In a few years, with the increased penetration of batteries, we may find HE17 and HE18 are no longer high need hours but rather the hours shift to later in the day such as HE22 or HE23. The price signals generated by an open market are the best and most efficient indication of demand, and any self-scheduling requirement will interfere with that price formation process.

MSCG understands the CPUC's concern regarding speculative supply and high price energy offers. MSCG submits that the proposals MSCG has put forth address both of those concerns in a reasonable manner and without the blunt force of a must-flow requirement.

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[12] *Id.* at 7.

Ultimately a self-scheduling requirement will lead to physical suppliers having less willingness to commit to Import RA supply to serve California for fear they will be forced to sell energy at a loss during low demand hours or during transmission-constrained hours.

IV. **MSCG Refinement**

MSCG respectfully submits the following refinement to the MSCG Proposal that MSCG believes will fully address the objective of ensuring *bona fide* physical supply is backstopping an Import RA bid, without compromising the competitive marketplace. An e-tag should be required prior to the operating hour for all energy dispatched by the CAISO. Suppliers must be given the opportunity to procure unused, released firm transmission (*i.e.*, 10:00 p.m. on the eve of flow day on the BPA system). Thus, a day-ahead e-tag should not be required any earlier than midnight on the day of flow.

MSCG is also in agreement with the offer cap construct put forth by SCE and Shell where the offer cap is set at predetermined levels according to where gas prices are trading. Accordingly, MSCG's attestation product offer cap should be changed to match the offer cap design of the SCE and Shell Track 1 Proposal.

V. **Conclusion**

Requiring advance resource specification and allowing suppliers to e-tag their CAISO awards up until midnight on the day of flow achieves the overarching objectives of the Import RA market. Namely, there is assurance that *bona fide* physical supply is backing an Import RA contract and a competitive market is maintained. Such a competitive market benefits California load-serving entities, which ultimately are California ratepayers, via lower RA prices and lower energy prices when dispatched.

MSCG reiterates its position that an "all of the above" approach as discussed in the MSCG Proposal and further refined above remains a fair and balanced approach to account for the evolution of the grid and the Import RA market.[13] Such an approach takes into account the offer cap as proposed by the SCE and Shell Track 1 Proposal and is aligned with resource specifications as also advocated by the CPUC, the CAISO and Powerex. Finally, MSCG would be supportive of the CAISO and Powerex proposals if they were amended to (i) remove the implemented day-ahead e-tag requirement and replace it with a requirement to e-tag energy awards by midnight the day of flow, and (ii) revise the firm transmission source to sink requirement and replace it with a requirement to have firm transmission on the last segment preceding the California delivery point.

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Respectfully submitted,

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[13] *MSCG Proposal*, at page 3.